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**CERTIFIED ACCOUNTING TECHNICIAN (CAT)**

**STAGE 3 EXAMINATION**

**S3.3 TAXATION**

**DATE: FRIDAY, 27 AUGUST 2021**

**MARKING GUIDE AND MODEL ANSWERS**

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## **SECTION A**

### **Marking Guide**

<b>Question Number</b>	<b>Answer</b>
1	A
2	A
3	B
4	D
5	C
6	C
7	D
8	D
9	A
10	A

Section A – Marks allocation	<b>marks</b>
2 marks for each correct answer	2
<b>Total marks:</b>	<b>20</b>

### **Model Answers**

#### **QUESTION ONE**

**The correct answer is A**

Repairs, are revenue in nature and therefore allowable business expenditure unless the repair is significant to the extent that it adds value or increases productivity of the asset. The computer upgrade, although it is an improvement and hence capital, the cost less than Frw 500,000 and is therefore allowable. Option 4 is about purchase of a Vehicle and capital in nature hence not allowable for Income tax.

#### **QUESTION TWO**

**The correct answer is A**

Interbank Plc's taxable income is understated due to the high management fees charged by the UK parent company. The difference between an arm's length price (taken to be the amount charged to other subsidiaries,  $\text{Frw } 50,000,000 \times 100/125 = 40,000,000$ ) and the actual price charged of Frw 50,000,000 must be added on to Interbank Plc's profit. Option B and D are wrong and just distractors. Option C is not applicable since a UK based company's income cannot be adjusted under Rwandan tax legislation.

#### **QUESTION THREE**

**The correct answer is B**

The reimbursement of expenses incurred by an employee wholly for business activities of the employer is exempt. Sick leave allowance, cash and in kind bonuses are all taxable.

#### QUESTION FOUR

**The correct answer is D**

The reduced rates expire after five years after the company becomes listed, So A Ltd having been listed 6 years ago means the reduced rate benefit expired a year ago. A is **TRUE** because the Microfinance is unregistered hence can't qualify for the 5 year income tax holiday. B is **TRUE** because exporting > \$5 Million attracts 5% Income tax discount. And C is also **TRUE** that companies that list at least 30% of their shares are taxed at 25%..

#### QUESTION FIVE

**The correct answer is C**

	<b>Frw</b>	<b>Frw</b>
Gross income		5,200,000
Allowed expense (50% of Income)	2,600,000	
Interest	900,000	(3,500,000)
<b>Taxable income</b>		<b>1,700,000</b>
<b>Taxation:</b>		
0-180,000	0%	-
180,001-1,000,000	20%	164,000
>1,000,000	30%	210,000
<b>Total tax</b>		<b>374,000</b>

C is the correct option as it correctly calculates the rental income tax. A ignores interest expense in the allowable expenses. B assumes incurred expenses at 30% instead of 50%. Is also wrong.

#### QUESTION SIX

**The correct answer is C**

Quarters for taxpayers declaring PAYE on a quarterly basis run to the end of May, August, November and February, this makes A false. 2 and 3 are both correct.

## QUESTION SEVEN

**The correct answer is D**

It will be offset against business profit in Year 1 of 2,750,000, and then the remaining 2,750,000 will be offset against the contract profit in Year 2. The offset of the loss can be shown below

	Year 1 (Frw)	Year 2 (Frw)
Contract profit	3,500,000	NIL
Loss added back (5.5M-2.75M)	(2,750,000)	
Other business profits	3,000,000	2,750,000
Contract loss		(2,750,000)
Investment income	Nil	250,000
Taxable income	3,750,000	250,000

Offsetting the entire 5600,000 in year 1 is wrong, and carrying the loss forward to future years is incorrect as well. The right treatment should be 50% in year 1 and the remaining 50% in year 2 as shown in the table above.

## QUESTION EIGHT

**The correct answer is D**

Hardship waiver is given only in case of force majeure, neither options A, B or C qualify to be regarded as force majeure.

## QUESTION NINE

**The correct answer is A**

Loyalty payments to countries with which Rwanda has no double taxation agreement and payments to non-tax residents in Rwanda both attract withholding tax at 15%. Dividends received from a company listed on Rwandan capital market is taxable at 5% and Interests on deposits in financial institutions for at least a period of one year is exempt from withholding tax.

## QUESTION TEN

The correct answer is A.

	Frw
Rental income ( $\text{RWF}20,000 \times 12$ )	240,000
10% wear and tear expense ( $10\% \times \text{RWF}240,000$ )	(24,000)
Interest paid on loan to purchase ( $\text{RWF}800,000 \times 4\%$ )	(32,000)
Depreciation expense ( $5\% \times \text{RWF}1,000,000$ )	(50,000)
<b>Rental income</b>	<b>134,000</b>

Option B is false considers the gross income as taxable income and ignores allowable expenses. Option C is false because it disregards depreciation as an allowable expense when computing income tax. Option D disregards wear and tear for the asset, yet it should be adjusted before arriving at the taxable rental income.

## SECTION B

### QUESTION 11

#### Marking Guide

Personal income tax calculation	Marks
Determining taxable income (01 mark for each valid line)	3
Detailed Calculation of income tax (01 mark for each right tax bracket; 0%, 20% and 30%) Calculation per	4
Adjustment for quarterly prepayment	1
Adjustment for Withholding tax on public tender	1
Net Income tax payable	1
<b>Total marks</b>	<b>10</b>

#### Model Answers

#### Tuyisenge Chantal personal income tax calculation

##### For the year 2020

	Frw
Business profits	60,000,000
Dividends	10,000,000
Taxable income	70,000,000
<b>Tax calculation</b>	
$360,000 \times 0\%$	-
$840,000 \times 20\%$	168,000
$68,800,000 \times 30\%$ (Balancing figure)	20,640,000

Personal income tax liability for the period	20,808,000
Less: Quarterly prepayments	(20,000,000)
Less: WHT on public tender $(800,000 \times 100/118) \times 30\%$	(20,339)
<b>Personal income tax payable</b>	<b>787,661</b>

## QUESTION 12

### Marking Guide

<b>A. Aline's RSSB Contribution</b>	<b>Marks</b>
Pension calculation	1
Maternity contribution calculation	1
Voluntary medical insurance to RSSB	1
Community based insurance scheme contribution	1
Total pension amount	1
<b>Maximum marks for this section</b>	<b>5</b>
<b>B.</b>	
Well calculated Withholding tax (Right formula and right answer)	2
Well calculated Reverse charge VAT (Right formula and right answer)	2
Summation of total tax	1
<b>Maximum marks for this section</b>	<b>5</b>
<b>Total Marks</b>	<b>10</b>

### Model answers

#### A.

	<b>Aline's contribution</b>		<b>Employer's contribution</b>		<b>Total</b>
		<b>Frw</b>		<b>Frw</b>	<b>Frw</b>
Pension	$3\% \times (\text{Frw } 80,000 + 9,000)$	2,670	$5\% \times (\text{Frw } 80,000 + 9,000)$	4,450	7,120
Maternity Leave	$0.3\% \times (\text{Frw } 80,000 + 9,000)$	267	$0.3\% \times (\text{Frw } 80,000 + 9,000)$	267	534
Medical	$7.5 \times \text{Frw } 80,000$	6,000	$7.5 \times \text{Frw } 80,000$	6,000	12,000
Social benefit (CBHI)	$0.5\% \times 70,000$	350			350
<b>Total</b>		<b>9,287</b>		<b>10,717</b>	<b>20,004</b>

Employee's pension contribution is withheld from salary by the employer, filled and paid by the employer on behalf of the employee along with the employer's contribution to Rwanda Revenue authority either monthly or quarterly.

## B.

Taxes applicable to IC Ltd

IC Ltd is a registered company in Rwanda. The taxes applicable are:

### ***Withholding tax***

USD 10,000\*1.05=10,500

10,500\*15%= USD1,575

### ***Reverse charge VAT***

50%\*10,000=5,000

5000\*1.05= USD5,250

5,250\*18%=USD 945

***Total tax payable USD 2,520 (1,575+945)***

## **SECTION C**

### **QUESTION 13**

#### **Marking Guide**

<b>A. Calculation of flat or turnover tax</b>	<b>Marks</b>
(i) Calculation of 3% flat tax on turnover (01 mark for correct Revenue adjustment and 01 mark for right answer calculated)	2
(ii) Properly indicating that Professionals are not taxed flat fee on income but rather prepare books of accounts and pay 30% on profit	1
(iii) No flat tax is applied to tax payers with turnover above Frw 20 million	1
(iv) Calculation of taxable income and income tax on micro enterprises	2
<b>Maximum marks</b>	<b>6</b>
<b>B. 2 marks for each item well classified in table and reason well explained (Award 0.5 marks if calculation is partially done) (Maximum marks)</b>	<b>14</b>
<b>Total marks</b>	<b>20</b>

#### **Model Answers**

##### **A.**

- i) Small enterprise (turnover Frw 12-20m). Turnover tax at 3% = FRW516,000
- ii) Turnover and flat taxes not applicable – Liberal professions must be taxed on profits. They prepare books of accounts and pay 30% on profits
- iii) Turnover above Frw 20 million, not within small businesses regime
- iv) Taxable income (agriculture) = 19,000,000 – 12,000,000 = 7,000,000  
Micro-enterprise: flat tax (Frw 4,000,001-7,000,000) = Frw 120,000

**B.**

<b>Expense</b>	<b>Allow in full</b>	<b>Disallow in full</b>	<b>Disallow part</b>	<b>Amount to add back Frw '000</b>	<b>Reason</b>
Accounting depreciation of Frw 2,000,000, tax depreciation of Frw 3,000,000.	3,000,000	2,000,000		2,000	<i>Tax depreciation is allowable expense while accounting depreciation is disallowable expense and should be added back</i>
Staff Subscription to ACCA membership USD 200.	USD 200				Subscription to professional bodies allowed
Donation of Frw 10,000,000 to Covid fund set up by the Government of Rwanda.		10,000,000		10,000	Disallowed per income tax law, it is not paid to charity
Staff Housing benefit of Frw 700,000 not taxed on payroll		700,000		700	Since the amount is in cash, add all to taxable income
Payment for funeral services of a deceased staff Frw 1,000,000		1,000,000		1,000	These are terminal benefits which are taxed
Realised Exchange gain and unrealised exchange loss of Frw 7,000,000 and Frw 5,000,000 respectively.		7,000,000		7,000	Exchange gain taxable and unrealised exchange loss disallowed
A bad debt with a value of Frw 1,000,000, where the sale was recognised in income in the prior year and the amount written off in the books in the current year. No court order that the debtor is bankrupt	1,000,000				Bad debt not exceeding 3,000,000 allowable, recorded in prior year, and written off in current year



## QUESTION 14

### Marking guide

A.	Marks
(i) <b>CIT computation for Grace Ltd</b>	
Taxable trading profit	1
Rental income and Investment income (01 mark for each)	2
Excluding losses because shareholding changed for more than 2%	2
Net taxable income	1
Income tax	1
(ii)	
Explanation that company limited by shares can either be public or private company	2
Other forms of company registration (01 mark each, max. 02 marks)	2
<b>Maximum marks for (i)&amp;(ii)</b>	<b>11</b>
<b>B.</b> Explanation of excise duty charged on cigarette (01 mark per valid point)	3
<b>C.</b> List of custom taxes charged on Grace Ltd (01 mark per valid point)	6
<b>Maximum marks (B&amp;C)</b>	<b>9</b>
<b>Total marks</b>	<b>20</b>

### Model answers

#### A (i)

	Frw '000
Year ended 31 December 2020	
Taxable trading profits	4,000
Investment income	3,500
Losses	
Rental income	4,000
Taxable income	11,500
Tax @30%	3,450

#### (ii)

#### **Company Limited by shares**

It refers to a company in which the liability of its members is limited to the amount (if any) unpaid on the shares held by them. These companies, therefore, provide shareholders with limited liability. A company limited by shares can be either a public or a proprietary (private) company

Other forms of registration include;

Public Limited companies

Companies Limited by guarantee

**B. How excise duty is charged on imported cigarettes in Rwanda.**

Cigarettes are taxed both specific and advalorem duties

Cigarettes pay 36% of excise duty at the point of retail

Cigarettes also pay Frw130 per packet of cigarettes of 20 rods

**C. Customs related taxes applicable to Grace Ltd:**

- Customs duties 25% - Final tax
- VAT 18%-claimable as input tax
- Excise duty 5% final tax
- Withholding tax 5% deductible at the yearend
- ITL 1.5 final tax
- Customs Union tax 0.2% final tax

**QUESTION 15**

**Marking guide**

	<b>Marks</b>
A. 01 mark for each of taxes and commercial gains of VAT registered tax payer	4
B. Royalty income and how it is taxed in Rwanda (01 mark per valid point)	4
C. 01 mark for each payment subject to withholding tax (maximum 05 marks)	5
D. 0.5 marks for each example of goods that cannot be warehoused in customs warehouse (maximum 6 valid points)	3
E. Point put that private bonded warehouses are owned by private people, but they are under the supervision of customs and regulated by customs department	2
Goods cannot leave until they pay taxes and duties	2
<b>Total marks</b>	<b>20</b>

## **Model answers**

### **A. Taxes and commercial gains of VAT registered taxpayer;**

- Claim Input VAT
- Participate in public tender
- Can obtain quitus fiscal (tax clearance certificate)
- Can be given quick clearance of their imported goods

### **B. Royalty income and how it is taxed in Rwanda;**

- A royalty is an amount paid by a third party to an owner of a product or patent for the use of that product or patent. The terms of royalty payments are laid out in a license agreement
- Excess of 2% of turnover of royalty payment is disallowed as per Rwanda income tax law
- WHT of 15% is also charged on payment of royalties unless the beneficiary comes from the country where Rwanda has a DTA. With DTA, royalty payment WHT becomes 12%

### **C. Payments subject to withholding tax in Rwanda and how the tax is applied.**

- Public tender 3% retained at source
- 5% on customs withheld at customs on CIF
- 15% on imported services
- 15% on non-tax residents
- Investment income 15%
- Employment income 20%, 30% on gross pay

**END OF MARKING GUIDE AND MODEL ANSWERS**